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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC No. 00832-86/4
5 March 1986

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: George Kolt
National Intelligence Officer for Europe

SUBJECT: Status of Draft NIE 12.5-86: Hungary: The Waning of the Kadar Era

1. The attached draft NIE on Hungary is the result of a collaborative effort. The initial draft was produced by Frank Foldvary, State/INR, who did a very good job in coming up with little known information and putting it together. [] of the NIC/AG then did her usual masterful job of boiling down the data to its essentials, sharpening the judgments, and producing the current draft.

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2. We are glad that the SRP found the draft an excellent paper. In the attached draft, we have taken the SRP's suggestions into account as follows:

- On military considerations, we make clear that Hungary is a cooperative member of the Warsaw Pact in all ways but defense spending and have expanded somewhat our treatment of the spending issue (Para 31, last tic).
- On the Hungarian-USSR economic relationship, we agree this is a very important issue. As an initial step, we have added Paras 29 and 30 to deal with it. But since this issue affects the whole of Eastern Europe, we are also working with the NIO/Economics to start an NIE that will treat the problem in its broader dimensions.
- On overoptimism, we agree that the Key Judgments as originally written created that appearance. But we believe that this was due mainly to an overly abbreviated presentation. We have therefore revised the last two paragraph of the Key Judgments to bring them into line with the text, as suggested by the SRP.

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- On debt, we are trying to get the information suggested.
- On terrorism, I certainly agree with the SRP's implicit suggestion that the Hungarians should be taken to task for whatever support they provide to terrorists or insurgents. But we do not want to go into greater detail on these activities in the NIE because the information is highly compartmented and its use would greatly restrict the dissemination of the NIE. In any event, we believe the essential points are really made in the first two tics of Para. 31.

3. We have scheduled the coordination meeting for 14 March. If you have any guidance to give us, we will advise the agency representatives of its substance at that meeting and incorporate it into the text of the estimate.


George Kolt

Attachment
Draft NIE 12.5-86

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The Director of Central Intelligence
Washington, D.C. 20505

NIC-0929-86
25 February 1986

Senior Review Panel

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence
Chairman, National Intelligence Council
NIO for Europe

SUBJECT: Senior Review Panel Comments on Draft
NIE 12.5-86: Hungary: The Waning of
the Kadar Era, dated 19 February 1986

1. The Panel considers the Hungarian draft--by our reckoning the first in 31 years--an excellent paper. It is well-organized, clearly presented, informative about the past and present, estimative about the future. Given the absence of pressing policy questions, a shorter form would no doubt have been possible. We raise three reasonably major points and two specifics:

2. Military Considerations. In a draft which necessarily has the nature of a general overview, we think many policymakers will expect some consideration of Hungary's military policies and Pact relationships. For instance, what have been Budapest's recent attitudes toward participation in Pact maneuvers and exercises on Hungarian territory; toward Soviet moves for greater Pact integration and unity of command; toward Moscow's requests for increased defense expenditures? Will its traditional trade-off of submissiveness in such matters in return for greater internal economic and social latitude likely continue? Additionally, some appraisal of Hungarian military expenditures as an element of its budgetary problems, diminished growth, and indebtedness to the USSR would be useful. What is the probable domestic economic impact of Hungarian military expenditures over the next five years?

3. Hungarian-USSR Economic Relationships. The draft gives generally satisfactory treatment to bilateral trade and payments questions. It is less adequate on Hungarian responsiveness to a number of other matters the Soviets have been pushing in Eastern Europe: increased integration and specialization inside CEMA, a greater centralization of economic planning, larger shares of

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scientific and technical output for Soviet needs, overt and clandestine cooperation in technological transfers from the West, closer industrial coordination across the board. A discussion of this range of subject matter would we think add to the paper.

4. Key Judgments and the Further Reaches of Optimism. The final two Key Judgments (pages 4 and 5) may seem to a number of readers--as they do to us--a bit roseate in their post-1990 outlook. For the most part they make for a cheery coda, but do not reflect the text (pages 27-28), and are at variance with the "most likely scenario" (pages 30-31). We think they should be dropped or balanced and heavily qualified along the lines of "Implications - for the USSR" (pages 32-34).

5. Finally, two matters on which we suspect additional specifics would interest policymakers:

a. Debt. Is information available on Hungarian debt to the USSR to compare with the figure used in the text at page 10 of \$9.1 billion in 1980 in hard-currency indebtedness? (Is no more recent estimate of the latter possible?) What do we know or conjecture about debt service competition and priorities between East and West?

b. Insurgency-Terrorist Support. The text notes at page 21 Hungarian training and weaponry support for Third World insurgencies, together with the provision of terrorist transit, "cooperative services" to the KGB, and assistance in embargoed technology acquisition. Is any evaluation of the significance of these exertions possible? Are these activities totally immune to Hungarian cultivation of Western support relationships?

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cc: VC/NIC (Mr. Ford)
VC/NIC (Mr. Fuller)

ODCI/SRP:thelma

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